

SEATTLE SCHOOL DISTRICT No. 1
King County, Washington
September 1, 1991 Through August 31, 1992

Schedule Of Findings

1. District Officials Should Monitor The Receipt Of Location Time And Effort Reports

The Chapter 1 federal program is operated at six different schools within the district. The individual schools are required to submit monthly reports to the central office that reflect the breakdown of time chargeable to the Chapter 1 program and to other federal and state programs. These reports are summarized by the central office administrators, currently on an annual cycle, and used as the basis for the program's repayment of salaries and benefits to the district.

Our review of school reports indicated that only one of the six schools submitted all of the required monthly reports. When reports are not submitted, the central office administrators extrapolate from information submitted for prior months to prepare their monthly summaries and annual reports.

The federal Office of Management and Budget's Circular A-87 - *Cost Principles For State and Local Governments*, Attachment B, Allowable Costs - 10(b): "Payroll and Distribution of Time" states in part:

. . . Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

The failure of individual schools to file monthly reports prepared from contemporaneously completed time sheets results in the central office administrators preparing reports based upon estimates rather than actuals. This introduces the risk of inaccurate payroll cost distribution among the federal and nonfederal programs.

We recommend Chapter 1 administrators enforce the filing of monthly reports by the individual schools. We further recommend that Chapter 1 program administrators cease preparing reports based upon estimates instead of reports from individual schools based upon contemporaneously completed time sheets.

2. Federally Funded Program Management Should Be Cognizant Of Program Provisions

Our audit of the Dropout Demonstration Program (Middle College High School) disclosed that management had altered the scope of work and direct cost categories without written authorization from the grantor.

Program management recategorized approximately \$70,000 in supplies and \$110,000 in text materials to enable the purchase of computer software and hardware components in excess of \$160,000 of the original grant proposal and approved budget. These changes were not submitted to the awarding agency for approval.

34 CFR Subtitle A, Paragraph 80.30 states:

(c) Budget Changes)

(1) Nonconstruction projects. Except as stated in other regulations or an award document, grantees or subgrantees shall obtain the prior approval of the awarding agency whenever any of the following changes is anticipated . . .

(ii) Unless waived by the awarding agency, cumulative transfers among direct cost categories . . .

Additionally, 34 CFR Subtitle A, Part 74 App. D states:

(3) If the costs are not specified in the budget, or there is no approved budget, the recipient shall obtain specific prior approval in writing from the awarding party.

Grant accounting department review of expenditures is not intended to determine if expenditures exceed the program budget/expenditure classifications and should not be relied upon to meet this objective.

The awarding agency has the option to disapprove budget changes and disallow expenditures. Any federal disallowance shifts the responsibility for payment to the district. The grantor agency may also suspend or terminate the program for noncompliance.

We recommend the Dropout Demonstration program management obtain the Department of Education's written approval for major changes in the scope of work and direct cost category expenditures.

3. District Officials Should Submit Timely Federal Reports

Our review of the district's compliance with federal financial reporting provisions indicated the required annual reports for five major grant programs and two large nonmajor programs were not filed in a timely manner.

The following shows program ending dates, due dates, and filing dates for the district's federal reports.

<u>Program</u>	<u>Program End Date</u>	<u>Report Due Date</u>	<u>Report Date Filed</u>	<u>Filed Timely</u>
Chapter 1	8/31/92	11/30/92	1/6/93	No
Handicapped	8/31/92	11/30/92	11/5/92	Yes
Headstart	10/31/92	1/31/93	1/21/93	Yes
Magnet Schools	7/31/92	10/31/92	3/3/93	No
Summer Youth (JTPA)	9/30/92	11/30/92	1/7/93	No
Chapter 2	8/31/92	11/30/92	12/9/92	No
Dropout Demonstration	8/31/92	11/30/92	4/7/93	No

By not timely filing the required reports, district officials are not complying with program provisions and may be putting future funding at risk.

Specific programs are managed by separate departments with central accounting reviewing expenditures and preparing reimbursement requests. As a result, information necessary to complete a report is often in different locations and cannot be consolidated quickly enough to meet reporting requirements.

We recommend district officials file the necessary federal reports in a timely manner.

4. Internal Controls Over General Fixed Assets Need To Be Improved

Our review of the district's general fixed asset system and financial reporting identified control weaknesses in several areas. The district is in the process of addressing concerns raised during our last audit and has made some progress, but weaknesses still persist and the financial reporting effect has expanded.

The weaknesses noted are:

a. Equipment

(1) The district's general ledger accounting system was not reconciled with the fixed asset equipment inventory system.

(2) Fixed asset personnel are now establishing initial equipment asset records and values from purchase orders. This enables them to monitor subsequent notification after the asset is received. Purchase order prices can and are changed between order and payment, however, a final payment price report is not sent to the fixed asset equipment section to enable adjustment of the inventory records.

(3) Asset receiving documentation is not consistently sent to the fixed asset equipment section, especially when an individual school receives direct deliveries or makes a pickup from the vendor. The creation of fixed asset records from purchase orders captures a majority, but not all capitalizable or controllable equipment purchases.

(4) Lost, missing, or disposed of items are not consistently reported to the fixed asset equipment section or the accounting office.

b. Land and Buildings

(1) The Land subsidiary balance recorded in the UFAIS system and the manual listing used as the basis for the general ledger balance do not agree.

(2) There is no subsidiary ledger for buildings.

(3) The district's expenditure report on capital improvement costs did not agree with additions reported in the general ledger.

(4) Capital improvement project bids are not structured to include separate schedules, by building site, for the same type of construction work. As a result, it is extremely difficult to identify costs by building.

(5) Costs coded to Object 7120 - Personal Consultant Services, which include engineering and architect fees, included consulting fees that were not related to buildings or capital improvements, even though capitalized in the Building account.

A system for correctly recording and valuing the district's general fixed assets, in sufficient detail to enable district management and personnel to control the assets, is a critical management responsibility and affects the financial decision making process. The effect of these weaknesses, while not material to the \$359,061,435 of General Fixed Assets, need to be addressed.

We recommend district management improve controls over general fixed assets by:

- a. Reconciling the district's general ledger accounting system with the fixed asset equipment inventory system maintained by the fixed assets coordinator.
- b. The fixed assets coordinator and general accounting using the same data to maintain the accounting balance and the control over the assets.
- c. General accounting notifying the fixed asset equipment section when purchase order and invoice prices are different.
- d. Using deed files and other ownership documentation to identify the property owned by the district and its cost. In addition, management should use the county as a resource to correct inadequately documented ownership information or valuation.
- e. Emphasizing that it is the responsibility of the district's federal program managers to maintain a detailed inventory record of all fixed assets acquired with their federal program funds.
- f. Establishing a subsidiary ledger for buildings and, for the future, identify capital improvement costs by project and building. This will afford better control over the costs to improve a building and provide greater accountability for capital improvement funds and future capital improvement bond issue proceeds.
- g. Using the fixed assets coordinator's subsidiary system as the major source of reliable data for establishing the equipment value in the new fixed asset module on the LEAFS system.